CAPITAL EXPENDITURES COMMITTEE

TOWN OF LEXINGTON

REPORT TO THE
2013 SPECIAL TOWN MEETING (STM), March 18, 2013
[with corrected Pages 1 & 2]

Released March 15, 2013

Submitted by:
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Warrant Article Analysis and Recommendations

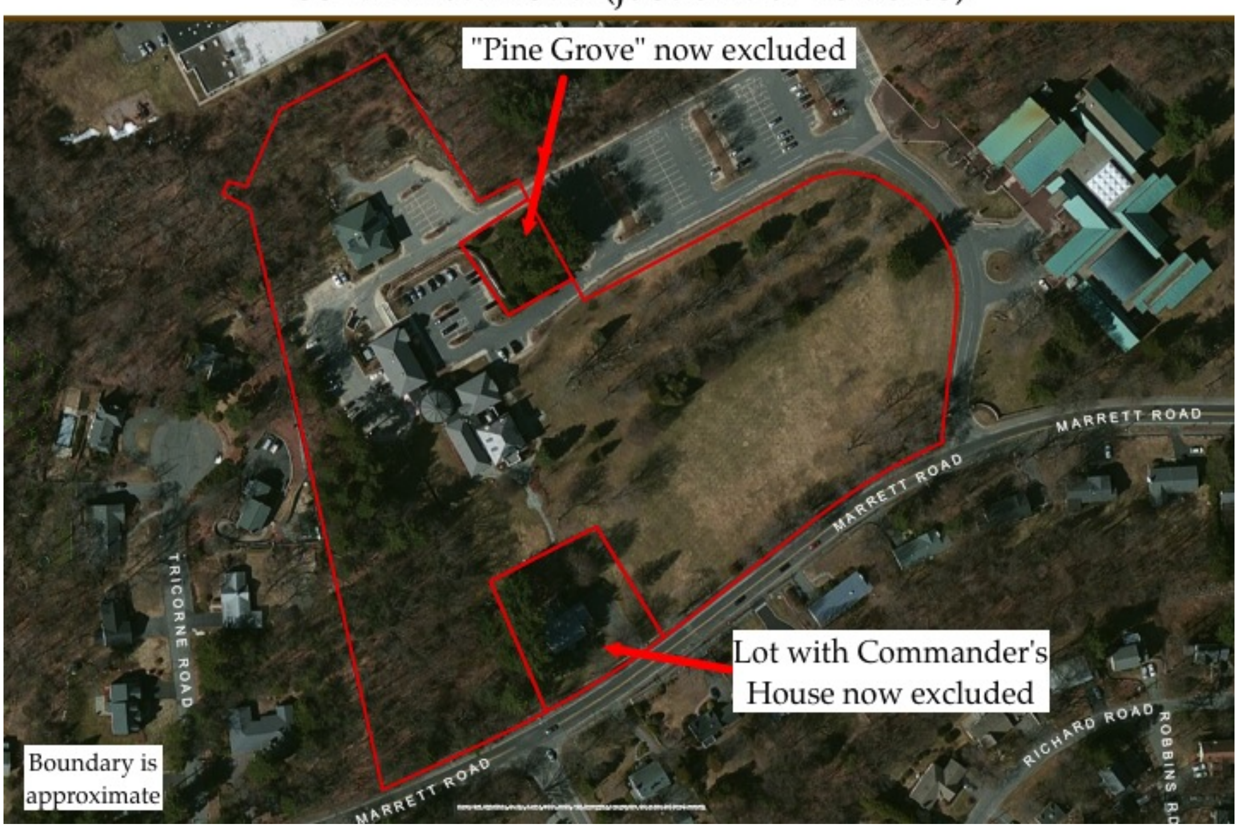
CPF = Lexington's Community Preservation Fund; GF = General Fund

	Fund Authorization Requested	Funding Source	Committee Recommends
STM Article 2: Land Purchase off Marrett Road	**\$10,950,000 + \$262,500 (for ancillary costs)**	**\$7,390,000 CPF (Debt) + \$3,560,000 GF (Cash) + \$262,500 CPF (Cash)**	**Approve (5–0)**

"The Scottish Rite property at 33 Marrett Road is currently being evaluated for its suitability for municipal purposes. Depending on a number of factors, a significant portion of the acquisition cost of the property could be eligible for financing with CPA funds. If a purchase price can be agreed upon, Town Meeting will be asked to approve the purchase at the Special Town Meeting on March 18th."
["Town of Lexington Fiscal Year 2014 Recommended Budget & Financing Plan", March 1, 2013" (the "Brown Book"), Page XI-22]

"We are the Board of Selectmen's negotiating team that has been working on the purchase of approximately 10 acres of property at 33 Marrett Road owned by the Scottish Rite. This property includes the historic mansion with adjoining annex and the carriage house, but excludes the museum and the single family residence on Marrett Road." [Negotiating Team letter to the Town Meeting Member Association E-Mail List, March 12, 2013]

Proposed Purchase of Land at
33 Marrett Road (just under 10 acres)



For several years, Lexington has searched for a suitable site for a Community Center ("Center") and the Scottish Rite property at 33 Marrett Road appears to satisfy many of the requirements for such a Center. While this Committee will not comment on the policy questions of (1) the need for a Community Center, (2) whether this is a suitable location, or (3) whether it is a "fair price" being offered; however, as advisors to Town Meeting, we offer the following thoughts regarding the proposed financing.

As shown above, a $7,390,000 portion of the purchase is proposed to be funded with CPF debt and $262,500 of CPF cash for the ancillary costs.

Those ancillary costs, based on initial estimates, include formal surveying and, if needed, additional division of the lot ($15,000); legal expenses, including documenting the property restrictions required by the Community Preservation Act (CPA) and paying a 3rd party (likely the Citizens for Lexington Conservation) to hold that restriction ($120,000); the site assessment, as needed ($12,500); and the first-year's debt service and issuance costs on a Bond Anticipation Note [BAN] ($115,000).

Not included in this Article's request is a current estimate of $100,000 for Design & Engineering (D&E) of the code-compliance actions required for initial occupancy and for schematic-level drawings for long-term building improvements to expand the functions available at the Center as that D&E is considered as outside of the scope of this Article. Instead, those funds will be requested at the concurrent 2013 Annual Town Meeting (ATM) under Article 14(n), Public Facilities Bid Documents, where the previously contemplated request of $75,000 GF cash will now be supplemented with $100,000 of CPF cash. Also not included in any request to either of these Town Meetings would be the funding to implement work required for initial occupancy, subsequent code-compliance actions, or any of the full D&E and implementation funding for the long-term building improvements to expand the functionality. All those would be addressed at one or more subsequent Town Meetings.

This level of funding most likely commits the CPF to significantly longer-term bonding than has previously been used. Since our acceptance of the CPA in March 2006, CPF debt financing was issued for four land purchases: Busa Farm, Leary Land, Cotton Farm, and Wright Farm—the first three of which were funded over an aggressive 3-year term and are now paid off. Regarding the Wright Farm funding, as the possibility of purchasing the Scottish Rite property was known prior to the issuance of the debt for Wright Farm, its purchase has been initially funded using a BAN which will come due next February when the Town issues bonds. By deferring the bonding, the Town has more flexibility for the bond terms for this and other potential CPF-funded projects like major upgrades to the Cary Memorial Building and the Irving H. Mabee Pool Complex ("Pool Complex"), to cite just two. If all three of these projects—those two and a new Center—come to fruition, then they will all most likely require 10-year bonding in order to fit the debt service into the estimated CPF revenues and still leave some funding available for other projects.

The Town Manager and staff have presented a multi-year, pro-forma model (see the Appendix) showing the claims against the CPF including this purchase and the other projects (except for the last phase of upgrades as the Senior Center in the Muzzey Condominiums), debt service, and the Administrative Budget amounts that the Community Preservation Committee is recommending to the 2013 ATM. Several other major out-year claims will, or are likely to, compete for funding by the CPF. Those other claims are for the balance of the Wright Farm debt service, additional D&E through formal bid documents for the build-out of the Center, completion of the Center's build-out, completion of the Cary Memorial Building upgrades, the Pool Complex upgrade, and a Center Track project. The model demonstrates a potential CPF funding scenario using 10-year-term bonds that still leaves the CPF with a positive balance and adequate yearly projected revenue to cover all those claims while still leaving some revenue available to cover currently unknown, albeit modest, projects.

This Committee views that model as having important caveats associated with it.

On the negative:

• It assumes that the CPA State match is maintained at the current 27% level. While it is unlikely that the match will drop to 0%, reductions are possible due to more communities adopting the CPA and/or reductions in Registries of Deeds collections of surcharges on the filings. We cannot predict where the match level will go in the future, but we need to be cognizant that if it does drop enough to jeopardize an acceptable year-end balance in the fund, it would necessarily mean that we have to make up the lost revenue by other means—most likely reducing the scope of other projects or their timing.

• Capital project costs could increase beyond the currently contemplated amounts, even adjusting for inflation.

On the upside, the model has several conservative features. A few are:

• The CPA State match does not presume an increase resulting from any State surplus being directed to the State's Community Preservation Trust fund as will apply at least for the distribution in FY2014. (That increase would be up to $25,000,000 to the extent the State surplus for FY2013 allows.)

• The assumed bond interest rate is 4% and the Town has been experiencing much-lower effective rates, especially when bond premiums are realized by the Town.

• There are cushions in the mandatory "set-aside buckets" for projects involving Open Space, Community Housing, and Historic Resources. Although the debt service for the proposed purchase can rely on funds separately accounted for in the set-aside buckets (thereby significantly reducing what is currently a potential double claim against the CPF), there is no assurance the projects in the future will be aligned with the availability of funding in those "buckets".

• With the purchase of the property for a new Center, the planned upgrades to the Senior Center at the Muzzey Condominiums may not be necessary. While the model has already presumed eliminating the proposed $526,818 appropriation from the CPF at this year's ATM, there is also the $561,518 appropriated from the CPF at last-year's ATM. Those funds have not been spent and would be a candidate for release back to the CPF.

• The years in which the bonds are issued could potentially be moved later than currently shown in the model.

Following the Cotton Farm acquisition, there were discussions among the financial committees, CPC, and Town staff about appropriate level of reserves to maintain in the CPF, but no formal policy was ever adopted. If the Town embarks on all three of the potential projects named above and we consider the current model, it will be difficult to continue to maintain a substantial reserve. (It is understood that the model is a snapshot in time and should be updated to reflect both actual events and any assumptions that warrant change.) Additionally, since there will be fewer CPA funds available after the committed debt service is appropriated, it necessarily means that these projects will "crowd" out some other potential projects, although that is not to say all of those other projects would be judged to be more important to the Town. One significant "big ticket" project that our Committee believes would be judged more important to the Town and that, if renovated in its current building would likely have some portion of the work eligible for funding from the CPF, is the Lexington Police Department Headquarters, even though the timing of this project and its location are still under discussion.

Also as shown above, the $3,560,000 balance of the purchase will be GF (cash) as not every aspect of the purchase is eligible under the CPA. That balance will be funded by using most of the remaining unallocated revenue that was being considered for several capital projects and would have been appropriated at the 2013 Fall Special Town Meeting. The most significant among them was to use cash funding for the Lexington High School modular classrooms, which will now need to be debt funded. (See the Brown Book, page XI-9, for the plan that would precede the purchase.)

While it is possible to reduce the CPF portion (and thereby increase the GF portion), this Committee believes that as much as possible should be funded using CPF because GF dollars are generally more flexible for future projects (e.g., roads).

We understand the Town's offer to the seller will include that the Town be given a right-of-first-refusal when the lot with their Commander's House—which is not part of this proposed purchase—is up for sale.

After considering financial issues raised by the proposed funding—some of which have been discussed above—this Committee believes that it is an appropriate financing approach.

Appendix: Impact of 33 Marrett Road Financing on CPA Funds

		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
		Projected Revenue									
		Estimated FY2014 Revenue	Current Resources on Hand	Estimated Resources at 2013 ATM for FY14	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
(1)	Property Surcharge	$ 3,691,000			$ 3,820,185	$ 3,953,891	$ 4,092,278	$ 4,235,507	$ 4,383,750	$ 4,537,181	$ 4,695,983
(2)	State Match [1]	$ 961,957			$ 995,625	$ 1,030,472	$ 1,066,539	$ 1,103,867	$ 1,142,503	$ 1,182,490	$ 1,223,878
(3)	Investment Income [2]	$ 17,000			$ 17,595	$ 18,211	$ 18,848	$ 19,508	$ 20,191	$ 20,897	$ 21,629
(4)	Undesignated Fund Balance [3]		$ -								
(5)	**Total**	**$ 4,669,957**	**$ 1,958,131**	**$ 6,628,088**	**$ 4,833,405**	**$ 5,002,574**	**$ 5,177,664**	**$ 5,358,883**	**$ 5,546,444**	**$ 5,740,569**	**$ 5,941,489**
		Projected Claims Against Projected Revenue									
(6)	Open Space			$46,500	$ 483,341	$ 500,257	$ 517,766	$ 535,888	$ 554,644	$ 574,057	$ 594,149
(7)	Historic Resources [4]			$1,591,500	$ 483,341	$ 500,257	$ 517,766	$ 535,888	$ 554,644	$ 574,057	$ 594,149
(8)	Community Housing			$622,734	$ 483,341	$ 500,257	$ 517,766	$ 535,888	$ 554,644	$ 574,057	$ 594,149
(9)	Other Projects			$367,500	$ 483,341	$ 500,257	$ 517,766	$ 535,888	$ 554,644	$ 574,057	$ 594,149
(10)	Administrative Expenses			$150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000
(11)	**Residual Balance [5]**			**$ 3,849,854**	**$ 2,750,043**	**$ 2,851,545**	**$ 2,956,599**	**$ 3,065,330**	**$ 3,177,866**	**$ 3,294,341**	**$ 3,414,893**
		Projected Debt Service - 10 Year Term @ 4%									
		Amount	ATM Action	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021
(12)	Wright Farm	*$ 2,950,000*	*2012*	$ 36,875	$ 413,000	$ 401,200	$ 389,400	$ 377,600	$ 365,800	$ 354,000	$ 342,200
(13)	Potential Marrett Rd. Purchase [6]	*$ 7,390,000*	*2013*	$ -	$ 1,034,600	$ 1,005,040	$ 975,480	$ 945,920	$ 916,360	$ 886,800	$ 857,240
(14)	Potential Marrett Rd. D & E	*$ 949,531*	*2013*		$ 132,934	$ 129,136	$ 125,338	$ 121,540	$ 117,742	$ 113,944	$ 110,146
(15)	Potential Marrett Rd. Construction	*$ 8,545,775*	*2014*			$ 1,196,409	$ 1,162,225	$ 1,128,042	$ 1,093,859	$ 1,059,676	$ 1,025,493
(16)	Potential Cary Hall D & E	*$ 550,000*	*2013*			PROPOSED FUNDING AT THE 2013 ATM FROM CASH ON HAND (included in C7 above)					
(17)	Potential Cary Hall Construction (including Contingency) [7]	*$ 7,987,000*	*2014*		TBD	$ 1,118,180	$ 1,086,232	$ 1,054,284	$ 1,022,336	990,388	958,440
(18)	Potential Center Pool [8]	*$ 1,200,000*	*2016*					$ 168,000	$ 163,200	$ 158,400	$ 153,600
(19)	Potential Center Track Project [9]	*$ 2,400,000*	*2017*						$ 336,000	$ 326,400	$ 316,800
(20)	**Total Projected Debt Service**			**$ 36,875**	**$ 1,580,534**	**$ 3,849,965**	**$ 3,738,675**	**$ 3,795,386**	**$ 4,015,297**	**$ 3,889,608**	**$ 3,763,919**
(21)	***Residual Balance Net of Debt Service***			***$ 3,812,979***	***$ 1,169,509***	***$ (998,420)***	***$ (782,077)***	***$ (730,057)***	***$ (837,431)***	***$ (595,266)***	***$ (349,025)***
(22)	***Application of Residual Balances***					***$ 3,812,979***	***$ 3,984,067***	***$ 3,201,990***	***$ 2,471,934***	***$ 1,634,503***	***$ 1,039,237***
(23)	***Net Balances Available [10]***					**$ 2,814,559**	**$ 3,201,990**	**$ 2,471,934**	**$ 1,634,503**	**$ 1,039,237**	**$ 690,211**
(24)	***Marrett Rd. General Fund Obligation - Purchase***			***$ 3,560,000***	***$ -***	***$ -***					
(25)	***Marrett Rd. General Fund Obligation - Construction***			***$ -***	***$ -***	***$ 2,398,411***					

[1] FY14 figure assumes a 27.7% reimbursement rate based on the October 2012 distribution.

[2] FY14 figure based on historical experience. FY15 to FY21 assumes a 3.5% annual increase based on assumed growth in the CPA surcharge of 3.5% annually.

[3] "Current Resources on Hand" includes the 7/1/12 Undesignated Fund Balance of $1,438,035.

[4] FY14 figure excludes $526,818 for Muzzey upgrades which would be deferred if Marrett Road is purchased and excludes $68,950 for the Visitor Center project. It includes $362,500 for incidental costs associated with the Marrett Road acquisition including surveying, legal services, and due diligence on environmental site conditions prior to the signing of a purchase and sale agreement, as well as $115,000 for interest expense on a bond anticipation note and associated issuance costs.

[5] FY14 Balance comprised of $428,170 from the Open Space Reserve, $1,756,882 from Unbudgeted Reserves and $1,438,000 in Undesignated Fund Balance as of 7/1/12, all of which could be used to paydown Wright Farm BAN.

[6] It is assumed that 100% of the CPA share of the purchase price for the Marrett Road property, and therefore its annual debt service, constitutes preservation of historic resources. Consequently, annual debt service payments could be applied to mitigate or meet the 10% threshold required under the CPA, thus precluding the need to set-aside a portion or all of the amounts shown in row 7 above. Relatedly, debt service for Wright Farm could be applied to mitigate the 10% threshold for open space shown in row 6 above.

[7] The need, if any, to issue a bond anticipation note for construction financing is not known at this time and therefore is to be determined (TBD).

[8] Current Estimate of total project cost. Recreation Enterprise Fund retained earnings is a potential source to mitigate project costs.

[9] Current estimate of total project cost is $3.0 million. Portion assumed to be funded with CPA funds is $2.4 million. Recreation Enterprise Fund retained earnings is a potential funding source to mitigate project costs.

[10] Balances do not reflect the potential closing of the 2012 annual town meeting appropriation for Phase 1 of Muzzey Center repairs of $561,518 to the Historic Resources reserve if the Marrett Road property is acquired.